

SYNOPSIS OF THE MAY 1, 2018 DEPOSITION OF TODD HATTON

The following is a brief synopsis of the facts to which Todd Hatton testified at his deposition. COR Clearing, LLC (“COR”) is offering excerpts from Hatton’s deposition, attached hereto, as substantive evidence pursuant to the Court’s Individual Rules and Practice, Rule 5.C.ii.

Hatton is a Conversion Coordinator at COR, and he held that position at all relevant times. P. 13:8-13. In that role, Hatton assists in the onboarding of broker-dealers, such as First Standard, onto COR’s clearing platforms and systems. P. 19:24-20:22. As discussed below, Hatton testified about, *inter alia*, COR’s efforts in connection with the conversion process related to First Standard, which refers to the conversion of First Standard Financial Co., LLC’s (“First Standard”) accounts and assets onto COR’s clearing platform. First Standard was transitioning from its existing clearing firm, Hilltop Securities Inc. (“Hilltop”) to COR.

COR had weekly internal conversion status meetings concerning First Standard. P. 56:24-57:14. COR also had weekly calls with First Standard concerning the conversion process from December 2016 until February 2017. P. 65:24-66:5. These weekly conversion status calls with First Standard ended in February 2017 when First Standard put the conversion process on hold. P. 65:24-66:5.

By February 2017, COR had completed almost every necessary step required to enable First Standard to transact new business on COR’s platforms. P. 90:2-4, 225:23-24. First Standard stopped attending the weekly conversion status meetings. P. 65:15-66:5. First Standard frustrated the conversion process by refusing to cooperate in the completion of the remaining tasks, which prevented COR from performing its obligations under the FDCA. P. 226:3-7. COR was ready, willing, and able to perform under the FDCA and complete the conversion process, but First Standard’s lack of cooperation prevented COR from doing so. P. 226:9-16.

While First Standard mentioned that an unspecified number of its brokers had expressed concerns about migrating to COR, John McCormack of First Standard downplayed the significance of this fact. P. 228:4-229:6. Hatton did not perceive the concerns of First Standard brokers to be a legitimate obstacle in connection with First Standard’s migration to COR, and he understood that McCormack would alleviate the broker’s concerns. P. 229:7-15. Further, no one ever mentioned to Hatton that FINRA expressed disapproval of First Standard switching clearing firms from Hilltop to COR. P. 227:24-228:3.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK
CASE NO. 1:17-cv-02190(PAE)

X ----- X

COR CLEARING,

Plaintiff,

DEPOSITION

-v-

OF:

FIRST STANDARD FINANCIAL

TODD HATTON

CO., L.L.C.,

Defendants.

X ----- X

T R A N S C R I P T of the stenographic notes of
the video-conference deposition of TODD HATTON in
the above-entitled matter as taken by and before
DEBRA-ANN BALSAMO, a Certified Shorthand Reporter
and Notary Public of New Jersey, at the offices of
SCARINCI & HOLLENBECK, L.L.C., One River Centre,
331 Newman Springs Road, Building 3, Suite 310,
Red Bank, New Jersey on Tuesday, May 1, 2018
commencing at 9:45 in the forenoon.

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REQUESTS MADE

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1 T O D D H A T T O N, residing at 19316 Ruggles
Circle, Elkhorn, Nebraska 68022, being first duly
2 sworn, testified as follows:

3

4 DIRECT EXAMINATION BY MR. LIEBERMAN:

5 Q. Good morning, Mr. Hatton. You've now
6 been sworn. My name is Paul Lieberman. I'm a partner
7 in the securities regulatory litigation practice of
8 Scarinci & Hollenbeck here in New York and New Jersey
9 and I represent First Standard as well as its officers
10 and employees in the defence of the lawsuit that has
11 been asserted by your employer, COR.

12 COR's lawyers and I have coordinated on
13 the scheduling of this deposition via video. Have you
14 ever been deposed before in a matter?

15 A. I have not.

16 Q. Okay. Have you ever testified as a
17 witness in a regulatory proceeding?

18 A. I have not.

19 Q. So let me provide you with a few ground
20 rules for how we're going to conduct our testimony
21 today. Number one, is you're under oath. I'll ask
22 you questions and you're going to answer them. If you
23 don't understand my question, tell me that and I'll
24 rephrase it. You have to answer verbally. Shaking
25 your head is not acceptable. The Court Reporter can't

1 written communication?

2 MR. DEUTSCH: Objection. Can I
3 just have the timeframe, please, Paul.

4 MR. LIEBERMAN: Yes. Since this
5 litigation began.

6 MR. DEUTSCH: Thank you.

7 A. No.

8 Q. Thank you. Mr. Hatton, what is your
9 title?

10 A. Conversion coordinator.

11 Q. And how long have you been in that
12 position on behalf of COR?

13 A. Since October 2015.

14 Q. And before that during 2014 what was
15 your title?

16 A. I was out of the securities industry.

17 Q. Have you looked at your linkedin website
18 recently?

19 A. Not recently.

20 Q. Okay. Because that lists your status as
21 a conversion coordinator at COR since October of 2014
22 and, so, a period of employment being three years and
23 seven months. Which is accurate, 2014 or 2015?

24 A. I believe it's 2015.

25 Q. Okay. And where were you employed prior

1 have experience in the securities industry?

2 A. No, I did not.

3 Q. And when did you graduate from Nebraska
4 Wesleyan University?

5 A. 1990.

6 Q. And what was your degree in?

7 A. Psychology.

8 Q. Do you have a minor in anything?

9 A. Business administration.

10 Q. And did you do anything between 1990
11 graduation and April of '92 when you started with TD
12 Ameritrade?

13 A. I sold life insurance.

14 Q. And who were you appointed as an agent
15 of?

16 A. The National Institute for the
17 Self-Employed. National Association for the
18 Self-Employed, excuse me.

19 Q. Do you currently hold any securities
20 licenses?

21 A. Series 7.

22 Q. Is that the only one?

23 A. It is.

24 Q. Now as the conversion coordinator, what
25 are your primary duties?

1 A. To onboard new correspondent firms.

2 Q. And what does on-boarding involve?

3 A. Establishing the correspondent firm in our
4 back office systems, coordinate and execute the
5 conversion of the client assets.

6 Q. And what are the typical client assets
7 that are converted?

8 A. Please clarify the question.

9 Q. Yes. You mention that you coordinate
10 the conversion of client assets. How do you define
11 client assets?

12 A. Cash and securities, equities, fixed income,
13 mutual funds.

14 Q. Corporate bonds?

15 A. Possibly.

16 Q. Municipal securities?

17 A. Possibly.

18 Q. Alternative investments?

19 A. Possibly.

20 Q. Basically, the assets that are being
21 converted are the assets of the correspondent clearing
22 firm customers; isn't that right?

23 A. That is correct.

24 Q. Are you also converting matters relating
25 to the licenses and registration of the correspondent

1 A. I do not.

2 Q. Okay.

3 MR. LIEBERMAN: I'm going to make
4 a request for access and copies to the Confluence
5 postings and I've asked the Court Reporter to note
6 that for you, Jeremy.

7 MR. DEUTSCH: Okay. And you
8 believe that those have not been produced to this
9 point?

10 MR. LIEBERMAN: I believe so.

11 MR. DEUTSCH: I'm not sure that
12 that's true. I think we've produced those, but we'll
13 take your request under advisement.

14 MR. LIEBERMAN: Yep. If you
15 think you have, you'll tell me where they are. No
16 problem. Let's move on.

17 Q. Does the correspondent firm such as
18 First Standard have access to the Confluence system
19 for its own postings?

20 A. They do not.

21 Q. So it's strictly internal to the
22 clearing firm?

23 A. Yes, it is.

24 Q. Okay. With respect to the conversion
25 process in general, are there periodic all-hands

1 meetings?

2 A. Internally, yes.

3 Q. And when do the, I call them all-hands
4 meetings, is there a specific nomenclature used at COR
5 for those?

6 A. We have weekly conversion status meetings
7 internally.

8 Q. And who is responsible for setting up
9 the meetings and the agendas?

10 A. Myself.

11 Q. Okay. And did you setup the weekly
12 conversion status meetings and agendas for the First
13 Standard process?

14 A. Yes.

15 Q. Do you recall being requested to provide
16 the weekly conversion status meetings in connection
17 with the discovery in this case?

18 A. No.

19 Q. Do you know who provided copies of the
20 weekly conversion status meetings in discovery in this
21 case?

22 A. No.

23 Q. Do you know why certain things in the
24 weekly conversion status meetings summaries would be
25 redacted?

1 advance of this meeting, did you elevate the
2 conversion status notes to identify this hold
3 situation for this particular conversion?

4 A. Elevate to legal?

5 Q. No, elevate the status of the whole
6 situation in your weekly conversion status meeting as
7 by making a notation on the various items of the form;
8 vis-à-vis, status, timeline, deliverables and ongoing
9 conversations areas?

10 A. I do not recall.

11 Q. Do you recall having individual
12 telephone conversations or face-to-face meetings with
13 anyone with respect to this on hold situation?

14 A. I do not recall.

15 Q. Did you setup any or attempt to setup
16 any conference calls with your counterpart at Hilltop?

17 A. I do not recall.

18 Q. If you had, would you have done that via
19 an e-mail request prior to scheduling an actual call
20 invite on a Microsoft office kind of scenario?

21 A. Yes, most likely.

22 Q. Do you recall whether you setup a call
23 with someone at First Standard?

24 A. We had weekly calls established with First
25 Standard which commenced in early December 2016 and

1 continued through early to mid February of 2017.

2 Q. Right. And, so, it continued until the
3 time of the on hold, but they did not continue after
4 that period in February of 2017; isn't that right?

5 A. I believe so, correct.

6 Q. Okay. So once they stopped attending
7 the weekly conversion status meetings, did you reach
8 out in any way to your contact at First Standard about
9 the hold situation?

10 A. I do not recall doing so.

11 Q. Had you ever had a situation where the
12 correspondent clearing firm stopped attending the
13 conversion status meetings prior to the conversion
14 start date?

15 A. It's not abnormal for a correspondent firm
16 to miss a meeting occasionally. But to my knowledge
17 we have not had anybody, you know, as you put it, put
18 on hold and just stop attending altogether.

19 Q. Okay. So that's a pretty unusual
20 situation, right?

21 A. In my experience, yes.

22 Q. And, so, in response to that very
23 unusual situation, who did you elevate the
24 circumstance to?

25 A. I do not recall.

1 system prior to converting the assets. My
2 recollection is we were very close to having First
3 Standard live in our system with the ability to
4 transact new business.

5 Q. Okay. Even without any transference of
6 customer data?

7 A. Correct. Once they are live in our system
8 they are able to open new accounts or transfer
9 existing accounts outside of the conversion process
10 and transact on those accounts.

11 Q. Did any of that occur to your knowledge?

12 A. No, sir.

13 Q. So you were talking about the internal
14 efforts that were completed by COR, as you say, you
15 talk about the back office parameters, did that
16 include the WAAM parameters?

17 A. There are certain screens that are specific
18 to WAAM, yes.

19 Q. Were those completed?

20 A. To my knowledge.

21 Q. Okay. And how would you get such
22 knowledge?

23 A. Through direct communication from the WAAM
24 manager.

25 Q. Any other internal efforts that you are

1 Reporter, please note my silence does not connote
2 agreement.

3 MR. LIEBERMAN: Let's mark this
4 as 8.

5 (COR document 1015341 is received
6 and marked Hatton-8 for identification.)

7 Q. Mr. Hatton, do you have what's now be
8 mark as Hatton number eight in front of you which is
9 COR 1015341?

10 A. Yes, I do.

11 Q. And are you familiar with Mr. Mechals
12 title and e-mail address?

13 A. I am.

14 Q. And in connection with this particular
15 document, it is coming from conversions and the e-mail
16 is COR conversions at COR Clearing.com. Is it correct
17 to state that both you and Josh can use that same
18 e-mail address?

19 A. That is correct.

20 Q. Okay. And are you familiar with this
21 e-mail that came from Mr. Mechals, in this case, to
22 Kelli?

23 A. I am.

24 Q. Okay. Have you read this document now?

25 A. I have.

1 currently on hold; is that correct?

2 A. That is correct.

3 Q. And then there's a new bullet. "It kick
4 started again. We lose our place in line as it
5 pertains to the taped conversion dates." Do you know
6 what that latter bullet means?

7 A. Yes. We would have locked in the dates, and
8 I don't recall the exact date, the May date with the
9 beta systems, they maintain a fairly rigid timeline
10 where a number of milestones or deliverables have to
11 be met. And any delay in any particular deliverable
12 or milestone jeopardizes meeting the ultimate
13 conversion date.

14 Q. Right.

15 A. So at this point we would have made that
16 determination that if we did kickback up, we would not
17 have made that original date.

18 Q. So the May 6th prospective conversion
19 date would be moved possibly?

20 A. That's correct. That's correct.

21 Q. Do you know was there any discussion or
22 determination of how long the loss of place in line
23 would have accrued, in other words, how many days,
24 weeks, months, years?

25 A. Not to my recollection. We would have had

1 Hatton. You've been very helpful. I appreciate all
2 your time.

3 THE WITNESS: Thank you.

4 MR. DEUTSCH: Paul, I have a
5 couple of questions for Mr. Hatton. Is it okay if I
6 just go ahead now.

7 MR. LIEBERMAN: Yeah, why not.

8 MR. DEUTSCH: Okay.

9 Miss Reporter, are you able to
10 hear me okay?

11 THE REPORTER: Yes. Perfectly.

12

13 CROSS EXAMINATION BY MR. DEUTSCH:

14 Q. Mr. Hatton, you were asked about forging
15 ahead after things were placed on hold. Why were you
16 forging ahead?

17 A. We were --

18 MR. DEUTSCH: I'm sorry, did you
19 say something, Paul?

20 MR. LIEBERMAN: Yeah, I was about
21 to object to the question.

22 Q. You can answer.

23 A. We were moving forward because we were so
24 close to turning First Standard live for new business
25 and, at the time, in review, it looked like there was

1 still hope that a resolution could be made with First
2 Standard.

3 Q. But you never really actually got to a
4 COR live date with First Standard, correct?

5 A. That is correct.

6 Q. Why is that?

7 A. First Standard frustrated the process.

8 MR. LIEBERMAN: Hah.

9 Q. Did First Standard prevent your
10 performance of the contract?

11 MR. LIEBERMAN: Objection.

12 A. Yes, they did.

13 Q. Were you ready, willing and able to
14 perform this contract?

15 MR. LIEBERMAN: Objection.

16 A. Yes, we were.

17 MR. DEUTSCH: What are the
18 grounds for that objection, Paul. I might reconsider
19 my question.

20 MR. LIEBERMAN: No foundation.
21 It calls for a conclusion of legal basis. This
22 witness is not a lawyer. There's been no discussion
23 about frustration at all during my questioning.
24 Anything else you need?

25 MR. DEUTSCH: No. I got it. And

1 thank you for explaining your objection. I stand on
2 my question.

3 MR. LIEBERMAN: Of course you
4 would.

5 MR. DEUTSCH: Your objection was
6 merit less.

7 MR. LIEBERMAN: That's your
8 opinion.

9 Q. Let me ask you, sir --

10 MR. DEUTSCH: We lost the phone
11 for some reason.

12

13 By MR. DEUTSCH:

14 Q. Mr. Hatton, you were asked about
15 stumbling blocks on the milestones that you had setup
16 and you gave and identified various things including
17 the terminal selection. Do you remember being
18 questioned about that by Mr. Lieberman?

19 A. I do.

20 Q. Were you ever told by anyone that FINRA
21 prohibited First Standard from switching clearing
22 firms from Hilltop to COR?

23 A. No, I was not.

24 Q. Were you ever told by anyone that FINRA
25 expressed disapproval of the idea of First Standard

1 switching clearing firms from Hilltop to COR?

2 MR. LIEBERMAN: Objection.

3 A. No.

4 Q. Did you ever have a conversation with
5 Mr. McCormack in which Mr. McCormack identified to you
6 problems he claimed to be having on his end with
7 respect to certain of his brokers who objected to
8 switching from Hilltop to COR?

9 MR. LIEBERMAN: Objection.

10 A. Yes.

11 Q. And what did Mr. McCormack say to you in
12 that conversation and what did you say to him?

13 MR. LIEBERMAN: Objection.

14 A. He stated that, he stated that he had
15 representatives, brokers that did not want to move
16 their business to COR Clearing.

17 Q. How many brokers did he say?

18 A. He did not say, I believe it was plural,
19 though.

20 MR. LIEBERMAN: Objection.

21 Q. And what did he tell you about what was
22 going to take place with respect to those objecting
23 brokers?

24 MR. LIEBERMAN: Objection.

25 A. He said that he would handle it.

1 Q. And did he identify this to you as a
2 stumbling block in the conversion process?

3 MR. LIEBERMAN: Objection.

4 A. No, he did not. He downplayed it.

5 Q. He downplayed the significance of this?

6 A. He did.

7 Q. So did you regard, were you given to
8 understand that any problems he was experiencing with
9 his brokers was going to be a stumbling block in terms
10 of getting First Standard converted over to COR?

11 MR. LIEBERMAN: Objection.

12 A. I did not read it that way.

13 Q. How did you read it?

14 MR. LIEBERMAN: Objection.

15 A. That he was going to handle these brokers.

16 MR. DEUTSCH: Okay. I have no
17 further questions.

18 MR. LIEBERMAN: We'll close the
19 record. Thank you, Mr. Hatton.

20 (Deposition of TODD HATTON is
21 concluded at 5:15 P.M.)

22

23

24

25

CERTIFICATE

I, DEBRA-ANN BALSAMO, a Certified
Shorthand Reporter and Notary Public of the State of
New Jersey, certify that the foregoing is a true and
accurate transcript of the deposition of TODD HATTON
who was first duly sworn by me.

I further certify that I am neither
attorney or counsel for, nor related to or
employed by any of the parties to the action in
which the deposition is taken and that I am not a
relative or employee of any attorney or counsel
employed in this case, nor am I financially
interested in the action.

DEBRA-ANN BALSAMO

CERTIFIED SHORTHAND REPORTER

Dated: May 7, 2018

My commission expires on:

December 6, 2020

License No. X101161